# First National Stores Inc.

# 1973 Annual Report

For the year ended March 31

Finast®

The Annual Meeting of Shareholders
will be held at the Company's Executive Offices, 5 Middlesex Avenue,
Somerville, Massachusetts on Monday, June 25, 1973, 10:00 A.M. Eastern Daylight Time.
All Shareholders are cordially invited to attend.

## Financial Highlights

| | *53 Weeks ended March 31, 1973* | *52 Weeks ended March 25, 1972* |
|---|---|---|
| Sales from continuing operations | $849,316,000 | $842,632,000 |
| Income (loss) from continuing operations | 561,000 | (1,453,000) |
| Loss from discontinued operations | (301,000) | (113,000) |
| Income (loss) before extraordinary items | 260,000 | (1,566,000) |
| Extraordinary items | (225,000) | 877,000 |
| Net income (loss) | 35,000 | (689,000) |
| Per share of common stock: | | |
| Income (loss) from continuing operations | .41 | (1.06) |
| Loss from discontinued operations | (.22) | (.08) |
| Income (loss) before extraordinary items | .19 | (1.14) |
| Extraordinary items | (.16) | .64 |
| Net income (loss) | .03 | (.50) |
| Net working capital | 36,445,000 | 29,582,000 |
| Total assets | 147,182,000 | 152,147,000 |
| Stockholders' equity | 80,399,000 | 80,298,000 |
| Book value per share | 58.90 | 58.91 |
| Number of stores (at year end) | 357 | 369 |
| Shares outstanding — weighted average | 1,372,274 | 1,372,663 |

### Directors

FRANCIS H. BURR,
*Partner, Ropes & Gray, Attorneys*
MAURICE T. FREEMAN,
*Investment Trustee*
WILLIAM T. FRENCH,
*Chairman of the Board*
ALAN L. HABERMAN,
*President, Chief Executive Officer and Treasurer*
JOHN E. LAWRENCE,
*Proprietor, James Lawrence & Co.*
JOHN F. LEBOR,
*Director of Several Corporations*
EDWARD A. MERKLE,
*President, Madison Fund, Inc.*
ADRIAN O'KEEFFE,
*Former President and Chairman of the Board*
BERNARD M. O'KEEFFE,
*Former Purchasing Executive*

### Officers

WILLIAM T. FRENCH,
*Chairman of the Board*
ALAN L. HABERMAN,
*President, Chief Executive Officer and Treasurer*
RICHARD L. KENNEY,
*Vice President and Controller*
AUSTIN F. LYNE,
*Vice President*
KERRY R. LYNE,
*Senior Vice President, Secretary and General Counsel*
JOSEPH H. McCARTHY,
*Senior Vice President — Supermarkets*
RICHARD M. O'KEEFFE,
*Vice President*
PETER C. QUINN,
*Vice President*

### Transfer Agents

THE FIRST NATIONAL BANK OF BOSTON,
*100 Federal Street, Boston, Mass. 02110*
CHEMICAL BANK,
*20 Pine Street, New York, New York 10015*

### Registrars

STATE STREET BANK AND TRUST CO.,
*225 Franklin Street, Boston, Mass. 02110*
BANKERS TRUST CO.,
*280 Park Avenue, New York, New York 10017*

### Counsel

LYNE, WOODWORTH & EVARTS,
*75 Federal Street, Boston, Massachusetts 02110*
ROPES & GRAY,
*225 Franklin Street, Boston, Massachusetts 02110*

### Independent Accountants

PRICE WATERHOUSE & CO.,
*225 Franklin Street, Boston, Massachusetts 02110*

### Executive Offices

*5 Middlesex Avenue, Somerville, Massachusetts 02143*
*Tel: Area Code 617-623-2400*

### Distribution Centers

*Somerville, Massachusetts*
*East Hartford, Connecticut*
*South Kearney, New Jersey*

**To Our Shareholders:**

The past year showed an improvement in the Company's operating results and much was accomplished towards the development of our long-term objectives. Sales from continuing operations for the 53-week fiscal year ended March 31, 1973 were $849,316,000 compared to sales for the 52-week fiscal year ended March 25, 1972 of $842,632,000. Net profit on continuing operations before extraordinary items was $561,000 or $.41 per share for fiscal 1973 as contrasted to a loss, before extraordinary credits, of $1,453,000 or $1.06 per share on continuing operations in fiscal 1972. Sales and earnings of both years are adjusted to reflect the discontinuance of our Suffolk Grocery institutional food subsidiary whose operating assets were recently sold. Final net profit for fiscal 1973 after the loss on discontinued operations of $301,000 and the non-recurring loss of $225,000 on the sale of Suffolk Grocery's assets was $35,000 or $.03 per share. This contrasts to the net loss of $689,000 or $.50 per share after extraordinary credits of $877,000 for fiscal 1972.

When your new management team assumed responsibility in mid May 1972, the supermarket industry had been made considerably more complex by conditions outside of the Company's control. In fiscal 1972, reserves of energy and spirit had been expended almost to the limit by a major price war in one of our markets, a seven-week strike, the Phase I freeze and the implementation of Phase II controls, all of which were reported in our last annual message. In fiscal 1973 we experienced a full year of stabilization controls; a growing adversary relationship between the consumer, the Government and our industry; accelerated inflation; and most serious, a new wave of price competition initiated by A & P's conversion to its WEO program that spread quickly to every corner of our market.

In this difficult environment, management determined that it must protect against the development of major losses while it refurbished the Company's basic earning power. Without a satisfactory profit margin to invest, response to the destructive price competition had to be both measured and specific. Supermarket industry profit performance generally was at its lowest ebb in many years, particularly in the northeastern states in which we operate. It was our belief that the severity of the price war would be limited in time and that market share loss could be controlled and reversed. The results are not all in, but our quarter-by-quarter performance gives indication that this was a sound strategy.

It should be noted that the effect of LIFO for the full year was unusually large and represented a reduction in reported earnings of $1,957,000 pre tax and $1,375,000 after tax. As far as we can determine, we are the only major food chain to utilize LIFO for all merchandise inventories. In a year of rising prices, LIFO acts to reduce earnings and thereby provides income tax savings. It is a most conservative approach to inventory valuation. Since its adoption by the Company in 1942, we have accumulated a LIFO reserve of $16,698,000. On our balance sheet, inventories are valued at average current cost less this reserve. The following table shows the effect of the LIFO charge on earnings per share before extraordinary items for the last five years:

| | *Earnings Per Share* | | |
|---|---|---|---|
| | *Before LIFO Effect* | *After LIFO Effect* | *Net LIFO Effect* |
| 1973 | $1.03 | $ .03 | $1.00 |
| 1972 (Loss) | (.86) | (1.14) | .28 |
| 1971 | 3.08 | 2.55 | .53 |
| 1970 | 2.35 | 1.84 | .51 |
| 1969 | .89 | .69 | .20 |

During the year we improved our net working capital from $29,582,000 to $36,445,000. We consummated a sale and lease back of certain operating units. We determined that our Suffolk Grocery — One Stop institutional food operation, although offering long-term potential, was a diversion of our management energies and an unwarranted cash drain and it was therefore discontinued. Our capital expenditure program was carefully controlled, and net outlays were kept within the limits of our depreciation structure.

Ten new stores were opened during the year, four of which were replacements of existing outmoded units. Twenty-two small, non-competitive units were closed, providing additional funds for the new units. In addition to the new stores, major remodels were completed in four existing stores and minor remodels were made in a number of others. At the close of the fiscal year, the Company operated 357 supermarkets, a reduction of twelve from the previous year's total of 369. Over 100 of the Company's current stores are either new or have had major remodels completed within the last five years. We opened our first three over-30,000 square foot stores during the last year, with more under construction and in the planning stage. The process of closing out smaller outmoded stores is continuing.

The Company phased out of trading stamps at mid year and stamps are no longer given in any of our stores. Our merchandising information system has been refined and is now directed more towards the individual store. This has provided the impetus behind a store level program to improve profitability through mix and product line selection. During the year we made our first experiments with television advertising, increased the frequency of chainwide circular promotions, improved in-store signing and display techniques and increased emphasis on a broad selection of national brands at low competitive prices. We also continued normal support of our private label program which is one of the most complete in our industry. In the last quarter of the fiscal year, average sales volume per store was at the highest level in the Company's history. We continue to emphasize higher square foot sales volume as a key to profitability.

The Company was restructured and streamlined during the year, perhaps most importantly in the areas of store management and field supervision. Our divisional and corporate structures were changed so as to pass greater responsibility to the store from the divisional level. Zones were established with the store manager responsible to the zone manager for the operations, merchandising and profitability of his store. Each zone manager has a team of trainers, one for each department, placing greater emphasis on our belief that good training and direct accountability of those employees closest to the customer are the prime ingredients for success in retailing. Field incentive programs were revised. Emphasis was changed from concentration on sales to achievement of high operating standards and profitability.

Major cost cutting programs were instituted to absorb pressure on margins and labor cost increases that were at best only somewhat tempered by Pay Board regulations. We have consolidated many of the service functions of the Company at both division and corporate levels. Accounting offices; payroll; personnel records; inventory control; loss prevention; real estate, construction and maintenance; and other important functions have been centralized, providing for increased efficiency and major savings in cost.

Additional programs were initiated during the year which will begin to affect us in this new year. Our bakeries are to be consolidated into a single operation. Our truck fleet is in the process of a modernization which will create substantial savings in our transportation department. We have installed engineered production standards in many areas of our warehouses, stores and offices. Store planning and objective setting by field personnel is a major program which promises important results.

Fiscal 1973 was a difficult year, a year of preservation and regrouping. We see 1974 as a year of continued refinement and increased profitability. We still face the uncertainties of inflation, ever-changing Government controls, irregularities in supply and the irrationalities of excessive competition which we hope have had their catharsis in the debacles of 1973 just past. It is significant that our new fiscal year started on the week of the consumer meat boycott! We have, however, strengthened our ability as a Company to face the repeatedly changing and ever-challenging conditions of our industry. We must be cautious, but we feel that we have built well for the future of your Company.

Respectfully submitted,

William T. French
William T. French
*Chairman of the Board*

Alan L. Haberman
Alan L. Haberman
*President*

## FIRST NATIONAL STORES INC.

### Consolidated Statements of Income and Retained Earnings

| | 53 Weeks ended March 31, 1973 | 52 Weeks ended March 25, 1972 (Note 6) |
|---|---|---|
| Sales | $849,316,000 | $842,632,000 |
| Costs and expenses: | | |
| Cost of sales, warehousing, transportation and store occupancy expenses | 717,737,000 | 712,553,000 |
| Direct selling, advertising, general and administrative expenses | 124,509,000 | 125,041,000 |
| Depreciation and amortization (Note 1) | 6,852,000 | 7,494,000 |
| | 849,098,000 | 845,088,000 |
| Operating income (loss) | 218,000 | (2,456,000) |
| Other income (expense): | | |
| Interest income | 785,000 | 92,000 |
| Interest expense | (856,000) | (379,000) |
| Gain (loss) on disposal of fixed assets | 529,000 | (121,000) |
| Other | (15,000) | 66,000 |
| | 443,000 | (342,000) |
| Income (loss) from continuing operations before income taxes | 661,000 | (2,798,000) |
| Federal and state income taxes (Note 5) | 100,000 | (1,345,000) |
| Income (loss) from continuing operations | 561,000 | (1,453,000) |
| Loss from discontinued operations, less applicable tax effect (Note 6) | (301,000) | (113,000) |
| Income (loss) before extraordinary items | 260,000 | (1,566,000) |
| Extraordinary items: | | |
| Gain on sale of investment, less $800,000 tax effect | — | 877,000 |
| Loss on sale of assets relating to discontinued operations, less $125,000 tax effect (Note 6) | (225,000) | — |
| Net income (loss) | 35,000 | (689,000) |
| Retained earnings at beginning of year | 59,399,000 | 61,108,000 |
| Cash dividends declared — $.75 per share in 1972 | — | (1,020,000) |
| Retained earnings at end of year | $ 59,434,000 | $ 59,399,000 |
| Per share of common stock (Note 1): | | |
| Income (loss) from continuing operations | $ .41 | $(1.06) |
| Loss from discontinued operations | (.22) | (.08) |
| Income (loss) before extraordinary items | .19 | (1.14) |
| Extraordinary items | (.16) | .64 |
| Net income (loss) | $ .03 | $ (.50) |

## FIRST NATIONAL STORES INC.

### Consolidated Balance Sheets

| | March 31, 1973 | March 25, 1972 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 11,010,000 | $ 10,323,000 |
| Short-term investments, at cost which approximates market | 17,907,000 | 14,953,000 |
| Accounts receivable, less allowance for doubtful accounts — $700,000 in 1973 and $500,000 in 1972 | 9,151,000 | 9,475,000 |
| Inventories (Note 1) | 46,377,000 | 47,712,000 |
| Prepaid expenses and other current assets | 3,385,000 | 2,845,000 |
| Total current assets | 87,830,000 | 85,308,000 |
| Fixed assets, at cost (Note 2): | | |
| Land | 6,936,000 | 9,762,000 |
| Buildings owned | 22,862,000 | 29,741,000 |
| Store fixtures and equipment | 78,512,000 | 77,274,000 |
| Leasehold improvements | 14,780,000 | 14,545,000 |
| Other machinery and equipment | 20,698,000 | 21,605,000 |
| | 143,788,000 | 152,927,000 |
| Less — Accumulated depreciation and amortization (Note 1) | 85,772,000 | 87,471,000 |
| | 58,016,000 | 65,456,000 |
| Other assets and deferred charges | 1,336,000 | 1,383,000 |
| | $147,182,000 | $152,147,000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 35,914,000 | $ 40,704,000 |
| Accrued expenses | 14,421,000 | 13,959,000 |
| Current portion of long-term debt | 1,050,000 | 1,063,000 |
| Total current liabilities | 51,385,000 | 55,726,000 |
| Long-term liabilities (Note 2) | 13,318,000 | 14,403,000 |
| Deferred federal income taxes | 2,080,000 | 1,720,000 |
| Stockholders' equity (Notes 3 and 4): | | |
| Common stock, without par value: | | |
| Authorized — 5,000,000 shares | | |
| Issued — 1,655,268 shares | 31,873,000 | 31,876,000 |
| Retained earnings | 59,434,000 | 59,399,000 |
| | 91,307,000 | 91,275,000 |
| Less — Treasury stock, at cost — 290,315 shares in 1973 and 292,161 shares in 1972 | 10,908,000 | 10,977,000 |
| | 80,399,000 | 80,298,000 |
| Lease commitments (Note 7) | | |
| | $147,182,000 | $152,147,000 |

## FIRST NATIONAL STORES INC.

### Consolidated Statements of Changes in Financial Position

| | 53 Weeks ended March 31, 1973 | 52 Weeks ended March 25, 1972 |
|---|---|---|
| **Financial resources were provided by:** | | |
| Operations: | | |
| Income (loss) before extraordinary items | $ 260,000 | $ (1,566,000) |
| Expenses not requiring outlay of working capital in the current period: | | |
| Depreciation and amortization (Note 1) | 6,865,000 | 7,508,000 |
| Deferred federal income taxes | 360,000 | (1,100,000) |
| Other | (562,000) | 832,000 |
| Working capital provided by operations | 6,923,000 | 5,674,000 |
| Extraordinary items: | | |
| Sale of investment | — | 3,764,000 |
| Sale of assets relating to discontinued operations | (135,000) | — |
| Proceeds from: | | |
| Sale and leaseback of certain store properties | 3,280,000 | — |
| Long-term debt | — | 10,000,000 |
| Disposal of fixed assets | 2,842,000 | 2,267,000 |
| Exercise of stock options | — | 106,000 |
| | 12,910,000 | 21,811,000 |
| **Financial resources were used for:** | | |
| Additions to fixed assets | 4,594,000 | 11,897,000 |
| Reductions of long-term debt | 1,334,000 | 1,317,000 |
| Cash dividends declared | — | 1,020,000 |
| Purchases of investments | — | 386,000 |
| Change in other noncurrent assets | 145,000 | 439,000 |
| Other | (26,000) | 40,000 |
| | 6,047,000 | 15,099,000 |
| Increase in working capital | 6,863,000 | 6,712,000 |
| Working capital at beginning of year | 29,582,000 | 22,870,000 |
| Working capital at end of year | $36,445,000 | $29,582,000 |
| Analysis of changes in elements of working capital: | | |
| Increase (decrease) in current assets: | | |
| Cash | $ 687,000 | $ (438,000) |
| Short-term investments | 2,954,000 | 14,953,000 |
| Accounts receivable | (324,000) | 1,688,000 |
| Inventories | (1,335,000) | 102,000 |
| Prepaid expenses and other current assets | 540,000 | (511,000) |
| | 2,522,000 | 15,794,000 |
| (Increase) decrease in current liabilities: | | |
| Accounts payable | 4,790,000 | (7,988,000) |
| Accrued expenses | (462,000) | (1,292,000) |
| Current portion of long-term debt | 13,000 | (492,000) |
| Federal income taxes | — | 350,000 |
| Dividend payable | — | 340,000 |
| | 4,341,000 | (9,082,000) |
| Increase in working capital | $ 6,863,000 | $ 6,712,000 |

**Note 1 — Summary of Significant Accounting Policies**

The accounting and reporting policies of First National Stores Inc. conform to generally accepted accounting principles. The following describes the more significant of those policies.

*Consolidation Policy*

All subsidiaries of First National Stores Inc. are included in the consolidated financial statements. Significant intercompany transactions and balances are eliminated. See Note 6 for treatment of discontinued operations.

*Inventories*

Inventories are stated at cost or market, whichever is lower, cost being determined substantially by the last-in, first-out method of inventory valuation. Inventories stated under the LIFO method were $16,698,000 less than current average costs at March 31, 1973.

*Depreciation and Amortization*

For financial statement purposes, depreciation and amortization are computed by the straight-line method except for assets acquired during the period March 1954 to March 1966. For assets acquired during this period, depreciation is computed primarily by the sum-of-the-years digits method. For tax purposes accelerated depreciation methods are generally used. Estimated useful lives are as follows:

| | |
|---|---|
| Buildings owned | 20 — 50 years |
| Store fixtures and equipment | 10 years |
| Leasehold improvements | 15 — 25 years |
| Other machinery and equipment | 3 — 8 years |

*Maintenance and Repairs*

Expenditures for maintenance, repairs and minor renewals are expensed in the year in which incurred.

*Closed Store Expenses*

All expenses incurred in connection with the closing of stores, including the unamortized value of leasehold improvements and the book value of store equipment, are expensed in the year in which the stores are closed. A special accrual was established for future rental obligations and other expenses relating to a certain group of stores closed during 1966 and 1967. The continuing rental obligations and other costs of other closed stores are expensed as incurred.

*Pre-opening Expenses*

All expenses incurred in connection with the opening of stores are charged to income as incurred.

*Income Taxes*

The provision for income taxes in the financial statements relates to the items of income and expense included in such statements. To the extent that items of income or expense are recognized in a different period for tax purposes, deferred income taxes are provided to give effect to these timing differences. The investment tax credit arising from the purchase and lease of qualifying property additions is recognized under the "flow through" method; see Note 5.

*Net Income Per Share*

The weighted average number of shares used to compute net income per share includes the shares allotted but not yet issued under the deferred compensation plan and, if the effect is dilutive, the shares issuable under the stock option plan.

*Pensions*

The Company maintains a trusteed noncontributory pension plan for employees who are not covered by union pension plans. Actuarial gains, resulting principally from the transfer of employees to various union plans and unrealized appreciation in the fund, are being amortized over ten-year periods from the dates of occurrence; see Note 8.

**Note 2 — Long-term Liabilities**

Long-term liabilities consist of the following (000's omitted):

| | 1973 | 1972 |
|---|---|---|
| 4.70% notes, due in equal semiannual instalments of $267,000 to 1976 | $ 1,592 | $ 2,126 |
| Bank loan, payable in varying instalments to 1977 with interest at ½% above prime (6½% rate at March 31, 1973) | 9,500 | 10,000 |
| Mortgage notes payable, maturing at various dates to 1992 with interest at rates ranging principally from 5¾% to 6% | 2,148 | 2,448 |
| | 13,240 | 14,574 |
| Less — current portion | 1,050 | 1,063 |
| Total long-term debt | 12,190 | 13,511 |
| Other long-term liabilities | 1,128 | 892 |
| Total long-term liabilities | $13,318 | $14,403 |

The bank loan agreement contains provisions whereby the Company is prohibited from exceeding certain levels of capital expenditures and is required to maintain minimum working capital and tangible net worth amounts. The most restrictive terms of the agreements covering the 4.70% notes and bank loan limit payment of dividends and acquisitions of the Company's stock to fifty percent of consolidated net income after March 25, 1972. At March 31, 1973 $18,000 of retained earnings was available for these purposes.

Aggregate maturities of long-term debt during the next five years are: 1974 — $1,050,000, 1975 — $3,812,000, 1976 — $3,781,000, 1977 — $3,501,000 and 1978 — $247,000.

**Note 3 — Common Stock and Stock Options**

Changes in common stock during the two years ended March 31, 1973 consisted of charges resulting from the excess of the average cost of treasury shares issued over the amounts assigned or paid for shares issued under the incentive compensation plan ($3,000 in 1973 and $2,000 in 1972) and the stock option plan ($41,000 in 1972).

Under the Company's stock option plans, options may be granted to key employees to purchase common stock at not less than the fair market value on the date of grant. Options to purchase 42,300 shares of common stock were outstanding on March 31, 1973 at prices ranging from $19.875 to $54.86 per share, of which options for 27,938 shares were then exercisable; 53,250 shares were available for future options.

The following table summarizes the stock option activity during 1973.

| | Number of Shares | Price per Share |
|---|---|---|
| Options outstanding at beginning of year | 43,300 | $29.75 to $54.86 |
| Granted | 11,750 | $19.875 |
| Expired or terminated | (12,750) | $30.25 to $31.75 |
| Options outstanding at end of year | 42,300 | $19.875 to $54.86 |

**Note 4 — Incentive Compensation Plans**

The stockholders approved in June 1970 an executive incentive compensation plan under which 6% of pre-tax income, as defined, will be available for awards to eligible participants in any year that such income exceeds $3,000,000 and cash dividends on common stock have been paid. In accordance with the provisions of the plan, no compensation was recorded for fiscal years 1973 and 1972. Under previous awards, 1,846 shares of treasury stock were issued during 1973 and 399 shares in 1972. The average cost of the treasury shares so issued exceeded the amount of compensation accrued by $3,000 in 1973 and $2,000 in 1972; such excesses were charged to the common stock account. At March 31, 1973, 7,244 shares allotted but not issued are issuable in future years.

The Company has an employment contract with the Chairman of the Board which provides for incentive compensation equivalent to the amount by which the market value of 25,000 shares of the Company's common stock during May 1975 exceeds the market value in May 1972. The incentive compensation is payable over a maximum period of seven years beginning in September 1975. At March 31, 1973 no incentive compensation was accrued under this contract because the market value at that date did not exceed the base amount.

**Note 5 — Federal and State Income Taxes**

The provision (credit) for federal and state income taxes relating to income (loss) from continuing operations includes the following (000's omitted):

| | 1973 | 1972 |
|---|---|---|
| Income taxes currently payable (refundable) | $ — | $ (350) |
| Deferred income taxes | 100 | (995) |
| | $ 100 | $(1,345) |

The 1973 provision for taxes relating to income from continuing operations has been reduced by investment tax credits of $130,000. These credits have been reversed in the computation of the tax effect of the loss from discontinued operations and the extraordinary charge.

At March 31, 1973 the Company had a tax basis net operating loss carryforward of approximately $2,600,000 available to reduce future taxable income through 1978 arising principally from the use of accelerated depreciation for tax purposes. The tax benefit applicable to this carryforward willl be credited to deferred tax accounts when such benefits are realized. Also, at March 31, 1973 the Company had approximately $1,600,000 of unused investment tax credits available for carryforward to future years, of which $450,000 has been recognized for book purposes. These carryforwards expire as follows: 1978 — $400,000, 1979 — $800,000 and 1980 — $400,000.

### Note 6 — Discontinued Operations

On April 5, 1973 the Company sold for cash plus the assumption of certain liabilities substantially all of the operating assets, exclusive of accounts receivable, relating to its institutional wholesale food operations. The following results of operations for the year ended March 31, 1973 relating to the discontinued operations have been shown separately in the accompanying consolidated statement of income. Amounts for 1972 have been reclassified for comparative purposes.

| Discontinued Operations | 1973 | 1972 |
|---|---|---|
| | (000's omitted) | |
| Net sales | \$10,525 | \$10,116 |
| Costs and expenses | 10,926 | 10,334 |
| Loss before income tax benefits | 401 | 218 |
| Income tax benefits | (100) | (105) |
| Loss from discontinued operations | \$ 301 | \$ 113 |

In addition the sale, recorded as of March 31, 1973, gave rise to an extraordinary charge of \$225,000 attributable to the loss on the assets sold and additional minor costs associated with the sale.

### Note 7 — Leases

At March 31, 1973 the Company was committed under long-term leases for operating stores and other real property used in the business which provide for minimum annual rentals of approximately \$11,240,000, exclusive of real estate taxes and other expenses or additional rentals based on percentage of sales. Of the minimum annual rental commitment, approximately 64% related to leases expiring within ten years and approximately 75% to leases expiring within fifteen years. The minimum annual rentals for closed store properties, net of annual rentals under sub-lease arrangements for such properties, approximate \$260,000. Substantially all of the leases covering closed store properties expire within ten years.

The Company also leases motor vehicles, equipment and other items under noncancellable leases having terms of at least one year. The minimum annual rentals under such leases approximate \$530,000 at March 31, 1973.

It is the Company's practice to include gains or losses relating to the sale of lease rights in operating income because they arise from transactions which are customary activities of the Company. Operating income for 1973 includes an unusually large gain of \$900,000 from one such transaction.

### Note 8 — Pensions

The assets of the Company's pension fund exceed the actuarially computed value of plan liabilities. Since 1966 no charges have been required for pension costs, other than contributions to union pension plans, because recognized actuarial gains have exceeded the annual provisions for normal or current costs.

Total pension costs charged to earnings, representing contributions to union plans, were \$3,016,000 in 1973 and \$2,850,000 in 1972.

To the Board of Directors and Stockholders of First National Stores Inc.

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of First National Stores Inc. and its subsidiaries at March 31, 1973 and March 25, 1972 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

**PRICE WATERHOUSE & CO.**

225 Franklin Street
Boston, Massachusetts
May 22, 1973

FIRST NATIONAL STORES INC. **Five-Year Review (in thousands of dollars)**

| | Fiscal years ended in March | | | | |
|---|---|---|---|---|---|
| | *1973** | *1972* | *1971* | *1970* | *1969* |
| **Operations** | | | | | |
| Sales from continuing operations | $849,316 | $842,632 | $840,744 | $763,429 | $692,125 |
| Income (loss) from continuing operations | 561 | (1,453) | 3,697 | 2,928 | 1,126 |
| Loss from discontinued operations | (301) | (113) | (186) | (188) | (16) |
| Income (loss) before extraordinary items | 260 | (1,566) | 3,511 | 2,740 | 1,110 |
| Extraordinary items | (225) | 877 | — | 1,841 | 240 |
| Net income (loss) | 35 | (689) | 3,511 | 4,581 | 1,350 |
| **Financial Position** | | | | | |
| Current assets | 87,830 | 85,308 | 69,514 | 74,387 | 75,046 |
| Current liabilities | 51,385 | 55,726 | 46,644 | 48,083 | 38,977 |
| Net working capital | 36,445 | 29,582 | 22,870 | 26,304 | 36,069 |
| Ratio of current assets to current liabilities | 1.71 | 1.53 | 1.49 | 1.55 | 1.93 |
| Fixed assets, net | 58,016 | 65,456 | 63,528 | 56,789 | 50,800 |
| Total assets | 147,182 | 152,147 | 136,342 | 133,478 | 128,934 |
| Long-term debt | 12,190 | 13,511 | 4,828 | 3,244 | 3,461 |
| Stockholders' equity | 80,399 | 80,298 | 81,888 | 80,947 | 86,040 |
| **Per Share of Common Stock** | | | | | |
| Income (loss) from continuing operations | .41 | (1.06) | 2.69 | 1.97 | .70 |
| Loss from discontinued operations | (.22) | (.08) | (.14) | (.13) | (.01) |
| Income (loss) before extraordinary items | .19 | (1.14) | 2.55 | 1.84 | .69 |
| Extraordinary items | (.16) | .64 | — | 1.24 | .15 |
| Net income (loss)** | .03 | (.50) | 2.55 | 3.08 | .84 |
| Cash dividends declared | — | .75 | 1.00 | 1.00 | .25 |
| Stockholders' equity | 58.90 | 58.91 | 60.26 | 57.51 | 53.60 |
| **Other Data** | | | | | |
| Capital expenditures | 4,594 | 11,897 | 16,207 | 15,591 | 7,651 |
| Depreciation and amortization | 6,865 | 7,508 | 7,023 | 6,769 | 7,027 |
| Shares of common stock outstanding (at year end) | 1,364,953 | 1,363,107 | 1,358,808 | 1,407,604 | 1,605,204 |
| Number of stores (at year end) | 357 | 369 | 380 | 413 | 444 |

*53 weeks

**Based upon the weighted average of shares outstanding during the year.

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